

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF LUNA PIER	County MONROE
Fiscal Year End 6/30/2007	Opinion Date 10/19/07	Date Audit Report Submitted to State 11/09/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) COOLEY HEHL WOHLGAMUTH & CARLTON, CPAS		Telephone Number 734-241-7200		
Street Address 1 SOUTH MONROE STREET		City MONROE	State MI	Zip 48161
Authorizing CPA Signature 		Printed Name PETER H. CARLTON, CPA		License Number 1101009575

CITY OF LUNA PIER
Monroe County, Michigan

ANNUAL FINANCIAL REPORT

June 30, 2007

CITY OF LUNA PIER

Table of Contents
June 30, 2007

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities.....	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	14-15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	17-18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Proprietary Fund:	
Statement of Net Assets	20
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	21
Statement of Cash Flows	22
Agency Fund - Statement of Fiduciary Net Assets.....	23
Notes to Financial Statements.....	24-37
Required Supplemental Information:	
General Fund:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	38-40
Major Street Fund:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	41
Local Street Fund:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	42
Special Road Fund:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	43
Community Development Fund:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	44

CITY OF LUNA PIER

Table of Contents (Concluded)
June 30, 2007

Other Supplemental Information:

Debt Retirement Fund:

Statement of Revenues, Expenditures, and Changes in Fund Balances
- Budget and Actual 45

Flood Control Facilities Fund:

Statement of Revenues, Expenditures, and Changes in Fund Balances
- Budget and Actual..... 46

Fire Millage Fund:

Statement of Revenues, Expenditures, and Changes in Fund Balances
- Budget and Actual 47

Tax Collection Agency Fund:

Statement of Changes in Assets and Liabilities 48

Waste Water Treatment Plant Fund:

Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets 49



COOLEY HEHL
WOHLGAMUTH & CARLTON
P. L. L. C. Certified Public Accountants

James R. Cooley, CPA
David K. Hehl, CPA
Robert W. Wohlgamuth, CPA
Peter H. Carlton, CPA
Matthew D. Hehl, CPA
Deborah A. Sabo, CPA

One South Monroe Street • Monroe, Michigan 48161-2281
Telephone: (734) 241-7200 • Fax: (734) 241-2637
www.chwccpa.com

Members:
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants
Division for CPA Firms American Institute of
Certified Public Accountants

Independent Auditor's Report

Honorable Mayor and
Members of City Council
City of Luna Pier
Luna Pier, Michigan 48157

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Luna Pier, Monroe County, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Luna Pier, Monroe County, Michigan management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Luna Pier, Monroe County, Michigan as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 38 through 44, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and
Members of City Council
City of Luna Pier

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Luna Pier, Monroe County, Michigan basic financial statements. The comparative and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The comparative and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cooley Hehl Wohlgamuth + Carlton

October 19, 2007

CITY OF LUNA PIER

*Management's Discussion and Analysis
Year Ended June 30, 2007*

This section of the City of Luna Pier's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements, which immediately follow this section. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the City's revenues and expenditures by program for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Proprietary Fund.

The Governmental Accounting Standards Board (GASB) adopted this reporting model in *Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June, 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Luna Pier financially as a whole. The ***Government-Wide Financial Statements***, which include the Statement of Net Assets and the Statement of Activities, provide information about the activities of the City as a whole and presents both a short-term and a long-term view of those finances. The ***Fund Financial Statements*** provide the next level of detail. For governmental activities, these statements explain how services were financed in the short-term as well as what remains for future spending. The ***Fund Financial Statements*** report the City's operations in more detail than the ***Government-Wide Financial Statements*** by providing information about the City's most significant funds - the General Fund, the Major Street Fund, the Local Street Fund, the Special Road Fund, the Community Development Fund, the Debt Retirement Fund, the Flood Control Facilities Fund, the Fire Millage Fund, and the Waste Water Treatment Plant Fund. The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the City acts solely as an agent for the benefit of the public. The following summary illustrates how the various parts of this annual report are arranged:

*Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)*

Basic Financial Statements

Government-Wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

*Budgetary Information for Major Funds
(Required Supplemental Information)*

Other Supplemental Information

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2007

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities (pages 11-13), which appear first in the City's financial statements, report information on the City as a whole and its activities. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the City's financial health is improving or deteriorating. The relationship between revenues and expenses indicates the City's operating results. However, the City's goal is to provide services to our residents, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided and the safety of the public to assess the overall health of the City.

The Statement of Net Assets and Statement of Activities report the governmental and business-type activities for the City, which encompass all of the City's services, including general government services, public safety, public works, culture, recreation, and waste water services. Property taxes, state grants, and charges for services finance most of these activities.

Fund Financial Statements

The City's Fund Financial Statements (pages 14-23) provide detailed information about the most significant or "major" funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes other funds to control and manage money for particular purposes or to show that it is properly using revenues. The City's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as described below:

Governmental funds - Many of the City's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the City and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation format in the financial section on pages 16 and 19.

Proprietary fund - A Proprietary Fund is used to account for business-type activities of the City which consists of the Waste Water Treatment Plant Fund. This fund accounts for services provided by the City where the City charges customers for the services it provides. This fund uses accrual accounting; the same method used by private sector business.

Fiduciary fund - An Agency Fund is used to account for assets held by the City as an agent for the collection and disbursement of property taxes.

CITY OF LUNA PIER

Management's Discussion and Analysis
Year Ended June 30, 2007

Financial Highlights

The following are some of the financial highlights for the 2006-07 fiscal year:

- ❖ The LaPointe Drain wall rehab was completed in August 2006.
- ❖ The first phase of healthcare and dental insurance changes were implemented. The new changes will be in effect by the end of the calendar year for an approximate \$100,000 annual savings to the General Fund.
- ❖ Sewer charges were changed from a fixed rate to usage based fees in order for the treatment plant to become self sufficient.
- ❖ An engineering firm has been hired to study upgrades to the treatment plant.
- ❖ A feasibility study for the Library, City Hall and Luna Pier School was completed.
- ❖ The Columbus drain, which had been a source of flooding, was cleaned and upgraded.
- ❖ The Monroe County Drain Commission has been petitioned to take over Lakeside Drain, which is also a source of flooding.
- ❖ A third full time employee was added at the Treatment Plant.
- ❖ The Pay & Display parking machine has now paid for itself and is generating revenue to offset beach expenses.
- ❖ Escrow accounts were created to allow departments to budget for future large expenses.
- ❖ We have installed full time City Hall hours instead of part time hours to better serve our citizens.
- ❖ The City negotiated with the full time Clerk and Treasurer to not provide healthcare benefits, which is a savings of approximately \$30,000 annually.
- ❖ A second full time person was hired at the D. P. W.
- ❖ The sewer contract with LaSalle Township was updated to reflect the new sewer rates and usage.
- ❖ The L. I. F. E. contract was re-negotiated to help offset higher utility costs.

CITY OF LUNA PIER

*Management's Discussion and Analysis
Year Ended June 30, 2007*

Government-Wide Financial Analysis

Recall that the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets as of June 30, 2007 and 2006:

Table 1:

**Comparative Statement of Net Assets
June 30, 2007**

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$2,208,032	\$1,963,481	\$67,480	\$156,799	\$2,275,512	\$2,120,280
Capital assets, net	1,044,129	1,134,941	1,831,051	1,904,262	2,875,180	3,039,203
Total Assets	3,252,161	3,098,422	1,898,531	2,061,061	5,150,692	5,159,483
Current and other liabilities	56,431	29,329	0	0	56,431	29,329
Long-term liabilities	57,386	138,141	0	0	57,386	138,141
Total Liabilities	113,817	167,470	0	0	113,817	167,470
Net Assets						
Invested in capital						
assets, net of related debt	1,044,129	1,050,115	1,831,051	1,904,262	2,875,180	2,954,377
Restricted for highways and streets	557,360	517,688	0	0	557,360	517,688
Restricted for debt service	3,028	3,728	0	0	3,028	3,728
Restricted for flood control	458,281	348,648	0	0	458,281	348,648
Restricted for fire protection	13,195	6,113	0	0	13,195	6,113
Unrestricted	1,062,351	1,004,660	67,480	156,799	1,129,831	1,161,459
Total Net Assets	\$3,138,344	\$2,930,952	\$1,898,531	\$2,061,061	\$5,036,875	\$4,992,013

As depicted in Table 1, the City's net assets were \$5.0 million at June 30, 2007. Of this amount, a positive \$1,129,831 was unrestricted. This amount represents the *accumulated* results of all past years' operations. The unrestricted net asset balance is used for working capital and cash flow needs as well as to provide for future uncertainties. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities we could with our current resources. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

CITY OF LUNA PIER

*Management's Discussion and Analysis
Year Ended June 30, 2007*

Government-Wide Financial Analysis - Concluded

The results of this year's operations for the City as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net assets for the fiscal year ended June 30, 2007 and 2006.

Table 2:

**Comparative Statement of Changes in Net Assets
Year Ended June 30,**

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Charges for services	\$116,382	\$115,317	\$182,199	\$194,784	\$298,581	\$310,101
Federal and state grants	111,326	144,715	0	0	111,326	144,715
	<u>227,708</u>	<u>260,032</u>	<u>182,199</u>	<u>194,784</u>	<u>409,907</u>	<u>454,816</u>
General revenues						
Property taxes	1,133,972	1,094,852	0	0	1,133,972	1,094,852
State grants	125,494	128,942	0	0	125,494	128,942
Other general revenues and transfers out	82,726	156,303	64,877	75,932	147,603	232,235
	<u>1,342,192</u>	<u>1,380,097</u>	<u>64,877</u>	<u>75,932</u>	<u>1,407,069</u>	<u>1,456,029</u>
Total Revenues	<u>1,569,900</u>	<u>1,640,129</u>	<u>247,076</u>	<u>270,716</u>	<u>1,816,976</u>	<u>1,910,845</u>
Functions/Program Expenses						
Legislative	4,800	5,191	0	0	4,800	5,191
General government	272,680	228,417	0	0	272,680	228,417
Public safety	346,784	350,439	0	0	346,784	350,439
Public works	265,181	326,249	0	0	265,181	326,249
Recreation and cultural	52,962	43,451	0	0	52,962	43,451
Interest on long-term debt	1,991	5,114	0	0	1,991	5,114
Other	418,110	377,831	0	0	418,110	377,831
Waste Water Treatment Plant	0	0	409,606	324,811	409,606	324,811
Total Expenses	<u>1,362,508</u>	<u>1,336,692</u>	<u>409,606</u>	<u>324,811</u>	<u>1,772,114</u>	<u>1,661,503</u>
Increase (Decrease) in Net Assets	<u>\$207,392</u>	<u>\$303,437</u>	<u>(\$162,530)</u>	<u>(\$54,095)</u>	<u>\$44,862</u>	<u>\$249,342</u>

As indicated in Table 2, the cost of *all governmental* activities this year was \$1.8 million. Of this amount, \$0.4 million was subsidized with revenue generated from charges for services and grants with the remaining costs financed with general revenues.

The City experienced an increase in net assets of \$44,862. The increase in net assets differs from the change in fund balance. A reconciliation of the change in fund balances for the governmental funds to the change in net assets appears on page 16.

CITY OF LUNA PIER

*Management's Discussion and Analysis
Year Ended June 30, 2007*

Fund Financial Analysis

As noted earlier, the City uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the City of Luna Pier is being held accountable for the resources taxpayers and others provide to it and may give more insight into the City's overall financial health.

As the City completed this year, the funds accounting for the governmental activities reported a combined fund balance of \$2,151,601 million, which is an increase of \$217,014 from last year. The changes by fund types are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Retirement Fund</u>	<u>Capital Projects Funds</u>	<u>Total</u>
Fund balances - Beginning of year	\$760,974	\$814,689	\$3,728	\$355,196	\$1,934,587
Increase (decrease)	<u>82,554</u>	<u>18,880</u>	<u>(700)</u>	<u>116,280</u>	<u>217,014</u>
Fund balances - End of year	<u><u>\$843,258</u></u>	<u><u>\$833,969</u></u>	<u><u>\$3,028</u></u>	<u><u>\$471,476</u></u>	<u><u>\$2,151,601</u></u>

The City's General Fund balance increase is due to many factors. The tables that follow assist in illustrating the financial activities of the General Fund.

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Percent Change</u>
Revenues			
Property taxes	\$ 944,659	\$ 912,045	3.5 %
Licenses and permits	39,592	30,087	31.5 %
Federal grants	4,833	2,338	106.7 %
State grants	127,037	140,418	(9.5)%
Local grants	6,792	32,041	(78.8)%
Charges for services	35,589	38,765	(8.1)%
Fines and forfeits	2,901	4,786	(39.3)%
Interest	47,520	33,870	40.3 %
Rentals	45,780	51,982	(11.9)%
Other	<u>42,272</u>	<u>170,080</u>	(75.1)%
Total Revenues	<u><u>\$1,296,975</u></u>	<u><u>\$1,416,412</u></u>	(8.4)%

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2007

Fund Financial Analysis – Concluded

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Percent Change</u>
Expenditures			
Legislative	\$ 4,800	\$ 5,191	(7.5)%
General government	233,895	195,622	19.5 %
Public safety	266,179	279,229	(4.6)%
Public works	188,013	157,556	19.3 %
Recreation and cultural	39,926	37,051	7.7 %
Other	418,110	377,831	10.7 %
Operating transfers out	63,498	74,431	(14.69)%
	<u>\$1,214,421</u>	<u>\$1,126,911</u>	7.8 %

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the City Council to adopt the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the City revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule illustrating the City's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Revisions to the General Fund original budget were as follows:

Revenues - Although no revisions were made to the revenue budget of \$1,239,791, several factors impact the planning of it. The City relies heavily on property taxes to fund General Fund expenditures. Property taxes of \$944,659 (up \$32,614 from the prior year) make up 73% of the General Fund revenues. Consumers Power Company pays approximately 62% of the property taxes. Federal and State revenues, which totaled \$131,870, (down \$10,886 from last year) represented approximately 10% of total revenues. Also during the 2006-07 fiscal year, the City realized increases in permit fees and interest income. Projected reductions in state-shared revenues, along with a modest increase in taxable value, cause the Council to have a very conservative outlook.

Expenditures - The original budget of \$1,238,098 was not changed, but various departments were adjusted during the year. The budgeted expenditures were increased for several departments, the major ones of which were City administration (\$5,000), attorney (\$16,000), clerk (\$5,000), treasurer (\$5,000), general government other (\$11,000), police department (\$4,500), building inspection (\$7,500), streetlights (\$4,000), and pension (\$17,000). The major departments that saw decreases were insurance and bonds (\$8,640) and hospital and dental insurance (\$31,200).

CITY OF LUNA PIER

*Management's Discussion and Analysis
Year Ended June 30, 2007*

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the City had \$6.1 million invested in a broad range of capital assets, including land, roads, land improvements, building and building improvements, machinery and equipment, vehicles, a waste water treatment plant, and sewer lines. This year's net additions of \$34,980 included street construction, a mower, a voting machine, and treatment plant equipment. Depreciation for governmental activities totaled \$124,768, and depreciation for business-type activities totaled \$74,235. Detailed information regarding capital assets is included in Note 7 to the financial statements.

Debt Administration

At June 30, 2007, the City had accrued a liability for unused vacation and personal days, which totaled \$57,386 at June 30, 2007. Detailed information regarding the City's debt is included in Note 8 to the financial statements.

Development of the 2007-08 Fiscal Year Budget

Our elected officials considered many factors when setting the City's 2007-08 fiscal year budget. The City has taken several measures to help control the rising cost of the governmental services and the ongoing decline of state revenue sharing. For 2007-08, the City anticipates General Fund revenues of \$1,447,499 and expenditures of \$1,483,287 which will use up \$35,788 of the June 30, 2007 fund balance. Also, 2007-08 will be the first full year of the new sewer rate structure which should allow the waste water treatment plant to break-even without a contribution from the General Fund.

Contacting the City of Luna Pier

This financial report is designed to provide the City's citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk, City of Luna Pier, 4357 Buckeye Street, Luna Pier, MI 48157.

CITY OF LUNA PIER

*Statement of Net Assets
June 30, 2007*

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$2,012,044	\$620	\$2,012,664
Accounts/loans receivable	106,427	59,350	165,777
Due from other governmental units	44,014	0	44,014
Prepaid expenses	45,547	7,510	53,057
Depreciable capital assets, net	1,044,129	1,831,051	2,875,180
Total Assets	<u>3,252,161</u>	<u>1,898,531</u>	<u>5,150,692</u>
Liabilities			
Accounts payable	41,005	0	41,005
Deferred revenue	15,426	0	15,426
Long-term liabilities:			
Due in more than one year	57,386	0	57,386
Total Liabilities	<u>113,817</u>	<u>0</u>	<u>113,817</u>
Net Assets			
Invested in capital assets, net of related debt	1,044,129	1,831,051	2,875,180
Restricted:			
Restricted for highways and streets	557,360	0	557,360
Restricted for debt service	3,028	0	3,028
Restricted for flood control	458,281	0	458,281
Restricted for fire protection	13,195	0	13,195
Unrestricted	1,062,351	67,480	1,129,831
Total Net Assets	<u>\$3,138,344</u>	<u>\$1,898,531</u>	<u>\$5,036,875</u>

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Statement of Activities
Year Ended June 30, 2007*

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government -				
Governmental activities:				
Legislative	\$4,800	\$0	\$0	\$0
General government	272,680	46,397	0	6,792
Public safety	346,784	42,493	6,376	0
Public works	265,181	23,693	98,158	0
Recreation and cultural	52,962	0	0	0
Interest on long-term debt	1,991	0	0	0
Other	418,110	3,799	0	0
Total Governmental Activities	1,362,508	116,382	104,534	6,792
Business-type activities:				
Waste water treatment plant	409,606	182,199	0	0
Total business type activities	409,606	182,199	0	0
Total primary government	\$1,772,114	\$298,581	\$104,534	\$6,792

General Revenues:
 Property taxes
 State grants
 Interest and investment earnings
 Other
 Transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and
Changes in Net Assets
Primary Government

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
(\$4,800)	\$0	(\$4,800)
(219,491)	0	(219,491)
(297,915)	0	(297,915)
(143,330)	0	(143,330)
(52,962)	0	(52,962)
(1,991)	0	(1,991)
(414,311)	0	(414,311)
(1,134,800)	0	(1,134,800)
<u>0</u>	<u>(227,407)</u>	<u>(227,407)</u>
<u>0</u>	<u>(227,407)</u>	<u>(227,407)</u>
(1,134,800)	(227,407)	(1,362,207)
1,133,972	0	1,133,972
125,494	0	125,494
96,472	1,379	97,851
49,752	0	49,752
(63,498)	63,498	0
<u>1,342,192</u>	<u>64,877</u>	<u>1,407,069</u>
207,392	(162,530)	44,862
<u>2,930,952</u>	<u>2,061,061</u>	<u>4,992,013</u>
<u>\$3,138,344</u>	<u>\$1,898,531</u>	<u>\$5,036,875</u>

CITY OF LUNA PIER

*Governmental Funds
Balance Sheet
June 30, 2007*

	Special Revenue Funds				
	General Fund	Major Street Fund	Local Street Fund	Special Road Fund	Community Development Fund
Assets					
Cash and investments	\$729,234	\$526,569	\$64,694	\$59,724	\$158,782
Accounts/loans receivable	0	0	0	0	106,427
Due from other governmental units	44,014	0	0	0	0
Due from other funds	74,113	0	30,126	0	11,000
Prepaid expense	45,547	0	0	0	0
Total Assets	\$892,908	\$526,569	\$94,820	\$59,724	\$276,209
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$19,665	\$0	\$19,514	\$0	\$0
Due to other funds	14,289	55,266	48,973	0	0
Deferred revenue	15,426	0	0	0	0
Total Liabilities	49,380	55,266	68,487	0	0
Fund Balances					
Reserved for prepaid expenses	45,547	0	0	0	0
Reserved for noncurrent receivables	0	0	0	0	103,077
Reserved for debt service	0	0	0	0	0
Unreserved:					
Designated for special projects	241,505	0	0	0	0
Undesignated, reported in:					
General Fund	556,476	0	0	0	0
Special Revenue Funds	0	471,303	26,333	59,724	173,132
Capital Projects Funds	0	0	0	0	0
Total Fund Balances	843,528	471,303	26,333	59,724	276,209
Total Liabilities and Fund Balances	\$892,908	\$526,569	\$94,820	\$59,724	\$276,209

See accompanying notes to the basic financial statements.

Debt Retirement Fund	Capital Project Funds		Total Governmental Funds
	Flood Control Facilities Fund	Fire Millage Fund	
\$3,028	\$458,232	\$11,781	\$2,012,044
0	0	0	106,427
0	0	0	44,014
0	1,146	2,327	118,712
0	0	0	45,547
<u>\$3,028</u>	<u>\$459,378</u>	<u>\$14,108</u>	<u>\$2,326,744</u>
\$0	\$913	\$913	\$41,005
0	184	0	118,712
0	0	0	15,426
0	1,097	913	175,143
0	0	0	45,547
0	0	0	103,077
3,028	0	0	3,028
0	0	0	241,505
0	0	0	556,476
0	0	0	730,492
0	458,281	13,195	471,476
<u>3,028</u>	<u>458,281</u>	<u>13,195</u>	<u>2,151,601</u>
<u>\$3,028</u>	<u>\$459,378</u>	<u>\$14,108</u>	<u>\$2,326,744</u>

CITY OF LUNA PIER

*Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
Year Ended June 30, 2007*

Total Fund Balances - Governmental Funds		\$2,151,601
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of the capital assets	\$2,496,224	
Accumulated depreciation	<u>(1,452,095)</u>	
		1,044,129
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Compensated absences		<u>(57,386)</u>
Total Net Assets - Governmental Activities		<u><u>\$3,138,344</u></u>

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2007*

	Special Revenue Funds				
	General Fund	Major Street Fund	Local Street Fund	Special Road Fund	Community Development Fund
Revenues					
Taxes	\$944,659	\$0	\$0	\$0	\$0
Licenses and permits	39,592	0	0	0	0
Federal grants	4,833	0	0	0	0
State grants	127,037	60,924	37,234	0	0
Local grants	6,792	0	0	0	0
Charges for services	35,589	0	0	0	0
Fines and forfeits	2,901	0	0	0	0
Interest income	47,520	20,534	1,294	1,077	7,613
Rentals	45,780	0	0	0	0
Other revenue	42,272	0	0	0	0
Total Revenues	1,296,975	81,458	38,528	1,077	7,613
Expenditures					
Current Operating:					
Legislative	4,800	0	0	0	0
General government	233,895	0	0	0	28,405
Public safety	266,179	0	0	0	0
Public works	188,013	19,686	61,205	500	0
Recreation and cultural	39,926	0	0	0	0
Other	418,110	0	0	0	0
Debt service	0	0	0	0	0
Total Expenditures	1,150,923	19,686	61,205	500	28,405
Excess (Deficiency) of Revenues Over Expenditures	146,052	61,772	(22,677)	577	(20,792)
Other Financing Sources (Uses)					
Operating transfers in	0	0	15,231	0	0
Operating transfers out	(63,498)	(15,231)	0	0	0
Total Other Financing Sources (Uses)	(63,498)	(15,231)	15,231	0	0
Net Change in Fund Balances	82,554	46,541	(7,446)	577	(20,792)
Fund Balances - Beginning of year	760,974	424,762	33,779	59,147	297,001
Fund Balances - End of year	<u>\$843,528</u>	<u>\$471,303</u>	<u>\$26,333</u>	<u>\$59,724</u>	<u>\$276,209</u>

See accompanying notes to the basic financial statements.

Debt Retirement Fund	Capital Projects Funds		Total Governmental Funds
	Flood Control Facilities Fund	Fire Millage Fund	
\$0	\$94,636	\$94,677	\$1,133,972
0	0	0	39,592
0	0	0	4,833
0	0	0	225,195
0	0	0	6,792
0	0	0	35,589
0	0	0	2,901
0	18,299	135	96,472
0	0	0	45,780
0	0	0	42,272
0	112,935	94,812	1,633,398
0	0	0	4,800
700	0	0	263,000
0	0	913	267,092
0	3,302	0	272,706
0	0	0	39,926
0	0	0	418,110
0	0	87,252	87,252
700	3,302	88,165	1,352,886
(700)	109,633	6,647	280,512
0	0	0	15,231
0	0	0	(78,729)
0	0	0	(63,498)
(700)	109,633	6,647	217,014
3,728	348,648	6,548	1,934,587
<u>\$3,028</u>	<u>\$458,281</u>	<u>\$13,195</u>	<u>\$2,151,601</u>

CITY OF LUNA PIER

*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2007*

Total Net Change in Fund Balances - Governmental Funds		\$217,014
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	(\$124,768)	
Capital outlay	<u>33,956</u>	
		(90,812)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in the governmental funds until paid		
		435
Repayments of bond and loan principal is an expenditure in the governmental funds; but not in the statement of activities (where it reduces long-term debt)		
		84,826
Increases in the liability for compensated absences are reported as expenditures in the statement of activities; but not in the governmental funds		
		<u>(4,071)</u>
Change in Net Assets of Governmental Activities		<u><u>\$207,392</u></u>

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

Proprietary Fund
Statement of Net Assets
June 30, 2007

	Business-type Activities Enterprise Fund Waste Water Treatment Plant Fund
Assets	
Current Assets:	
Cash	\$620
Receivables	59,350
Prepaid expenses	7,510
Total Current Assets	<u>67,480</u>
Capital Assets	3,604,786
Less: Allowance for depreciation	(1,773,735)
Total Capital Assets	<u>1,831,051</u>
Total Assets	<u>1,898,531</u>
Liabilities	
Current Liabilities:	
Accounts payable	<u>0</u>
Total Liabilities	<u>0</u>
Net Assets	
Invested in capital assets, net of related debt	1,831,051
Unrestricted	<u>67,480</u>
Total Net Assets	<u>\$1,898,531</u>

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Proprietary Fund
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Year Ended June 30, 2007*

	Business-type Activities Enterprise Fund Waste Water Treatment Plant Fund
Operating Revenues	
Charges for services	\$177,853
Other revenue	30
Permits	4,050
Penalties	266
	<hr/>
Total Operating Revenues	182,199
Operating Expenses	
Sewer processing and maintenance	404,194
Administration	5,412
	<hr/>
Total Operating Expenses	409,606
	<hr/>
Net Operating Income (Loss)	(227,407)
Non-Operating Revenues (Expenses)	
Interest income	1,379
	<hr/>
Net Income (Loss) Before Transfers	(226,028)
Transfers in	63,498
	<hr/>
Change in Net Assets	(162,530)
Net Assets - Beginning of year	2,061,061
	<hr/>
Net Assets - End of year	<u>\$1,898,531</u>

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Proprietary Fund
Statement of Cash Flows
Year Ended June 30, 2007*

	Business-type Activities Enterprise Fund Waste Water Treatment Plant Fund
Cash Flows from Operating Activities	
Receipts from customers	\$259,837
Payments to suppliers	(227,562)
Payments to employees	(108,377)
Net cash provided by operating activities	<u>(76,102)</u>
Cash Flows from Noncapital Financing Activities	
Transfers in	63,498
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(1,024)
Cash Flows from Investing Activities	
Interest income	<u>1,379</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(12,249)
Cash and Cash Equivalents - Beginning of Year	<u>12,869</u>
Cash and Cash Equivalents - End of Year	<u><u>\$620</u></u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income (loss)	(\$227,407)
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation	74,235
Changes in operating assets and liabilities	
Receivables	77,639
Prepaid expenses	(569)
Accounts payable	<u>0</u>
Net Cash Provided by Operating Activities	<u><u>(\$76,102)</u></u>

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Agency Fund
Statement of Fiduciary Net Assets
June 30, 2007*

	Tax Collection Agency Fund
Assets	
Cash	<u>\$1,361</u>
Liabilities	
Due to other taxing units	\$1,087
Due to other governmental units	<u>274</u>
Total Liabilities	<u>\$1,361</u>

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2007

Note 1 Description of the City and Reporting Entity

The City operates under a locally elected five member Council form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, recreation and culture, public improvements, planning and zoning, waste water treatment, and general administrative services.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, Councils, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. Component units may also include organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of their debt, or the levying of taxes. The City has no component units.

The following entities are not included herein as they operate as autonomous units:

Luna Pier Housing Commission

This entity is responsible for the public housing project within the City. The Commission is responsible to the Department of Housing and Urban Development (HUD) for its fiscal management and HUD is responsible for the debt of the project which is not guaranteed by the City.

South County Water System

This is a joint venture between the City, LaSalle Township, Erie Township, Bedford Township, and the County of Monroe to provide water to these municipalities located within the County of Monroe.

Note 2 Summary of Significant Accounting Policies

The financial statements of the City of Luna Pier have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Council (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Council (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the City's accounting policies.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2007

Note 2 Summary of Significant Accounting Policies (Continued)
Basis of Presentation

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues are reported separately from business-type activities which rely, to a significant extent on fees and charges for support. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Amounts reported as program revenue include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. General revenue includes taxes, intergovernmental payments, sales of property, and other items not properly included among program revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and agency funds, even though the latter are excluded from the government-wide financial statements. Major governmental funds and the individual enterprise fund are reported as separate columns in the fund financial statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Governmental fund expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

On the governmental funds statements, property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

Agency fund statements also are reported using the economic resources measurement focus and the cash basis of accounting.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2007*

Note 2 Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. The General Fund accounts for all financial resources of the City, except those required to be accounted for in another fund.

The Major Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all major streets.

The Local Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all local streets.

The Special Road Fund accounts for proceeds from a tax millage for road improvements.

The Community Development Fund accounts for all monies received by the City from the block grant programs.

The Debt Retirement Fund accounts for monies used to pay general obligation bonds contractually liable by the City to the South County Water System.

The Flood Control Facilities Fund accounts for revenues and expenditures used for constructing and maintaining flood control facilities.

The Fire Millage Fund accounts for proceeds from a tax millage for a pumper fire truck and fire protection equipment.

The City reports the following major proprietary fund:

The Waste Water Treatment Plant Fund accounts for the operation of the waste water treatment plant financed through user charges and transfers.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Waste Water Treatment Plant Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The City does not have any nonmajor governmental funds.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2007

Note 2 Summary of Significant Accounting Policies (Continued)
Basis of Presentation (Continued)

C. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Property Tax Receivable - Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 and December 1 of the following year. Summer taxes are considered delinquent July 31 and Winter taxes are considered delinquent February 14 of the following year.

Prepaid Assets - Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. sewer lines, road, etc.) are reported in the applicable governmental or business-type activities columns of the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost when actual cost information is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Table with 2 columns: Description and Estimated Lives. Rows include Roads (20 years), Land Improvements (20 years), Buildings and Buildings Improvements (20-60 years), Machinery and Equipment (3-30 years), Vehicles (5-8 years), and Sewer Lines (60 years).

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds." These amounts are eliminated in the governmental activities column of the statement of net assets. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Accrued Liabilities and Long-Term Obligations - In the government-wide financial statements and proprietary fund financial statements, long-term debts, notes, and other obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund types statement of net assets.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2007

Note 2 Summary of Significant Accounting Policies (Continued)
Basis of Presentation (Continued)

C. Assets, Liabilities, and Net Assets or Equity (Concluded)

In general, payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Payments of long-term loans that are paid from governmental funds are recognized as an expenditure on the governmental fund financial statements when due.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

Interfund Transactions - Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

Fund Balance Reserves and Designations - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Compensated Absences - City employees are granted vacation and personal days under formulas and conditions in the employee's contract. The vacation and personal pay is accrued in the government-wide financial statements. In the fund financial statements, these accounts are reported when paid.

- D. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.
- E. Extraordinary and Special Items - Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.
- F. Budgetary Policies - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The General Fund and all Special Revenue Funds are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the City Council at the function level. Any budgetary modifications may only be made by the City Council.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2007*

Note 2 Summary of Significant Accounting Policies (Concluded)

Basis of Presentation (Concluded)

F. Budgetary Policies (Concluded)

The City follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

1. Prior to June 30, the fiscal officer submits to the City Council a proposed operating budget for the fiscal year commencing on July 1.
2. A public hearing is conducted during June to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. During the year the budget is monitored, and amendments to the budget deemed necessary are approved by the City Council.
5. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. Lapsing of Appropriations - At the close of each year all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriations.

Note 3 Stewardship, Accountability and Compliance

The City shall not incur expenditures in excess of the amount appropriated. Annual budgets are adopted on a basis that is consistent with generally accepted accounting principles and State Law for the General and Special Revenue Funds. Even though not required by State Law, the City adopts budgets for the Debt Retirement Fund and the Capital Projects Funds.

In the required supplemental information, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis, which is the adopted legal level of control.

During the year ended June 30, 2007, expenditures exceeded final budgeted amounts in the following fund:

	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Community Development Fund	\$26,800	\$28,405	\$(1,605)
Fire Millage Fund	87,377	88,165	(788)

Note 4 Deposits

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds of the City may not be deposited in financial institutions located in states other than Michigan.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2007

Note 4

Deposits (Concluded)

Public Act 367 of 1982 (known as the Surplus Funds Investment Pool Act) enables municipalities to invest surplus operating funds in investment pools managed by qualified financial institutions. At June 30, 2007, the City of Luna Pier had invested in such a fund with a local bank. The City is able to retrieve these funds without restriction and, accordingly, this amount is considered to be available cash. The local bank invests these funds in a variety of instruments including bonds and direct obligations of the United States, certificates of deposit, commercial paper rated within the three highest classifications by not less than two standard rating services, United States government or federal agency obligation repurchase agreements and bankers acceptances of the United States banks.

The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Council has adopted an investment policy authorizing certain types of investments and authorized one depository: Monroe Bank and Trust.

Interest rate risk. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the City's investment policy.

Concentration of credit risk. The City does not place any limits on the amount the City may deposit or invest in any one issuer.

Custodial credit risk. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover the collateral securities in the possession of an outside party. The City has \$2,050,437 invested in certificates of deposit, checking accounts, and money markets. The City's deposits are insured by the FDIC in the amount of \$100,000, with uninsured deposits of \$1,950,437. The City's deposits are at institutions with an established record of fiscal health and service. The City Council approves and designates a list of authorized depository institutions. The City's investment policy does not address deposit risk.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

CITY OF LUNA PIER

Notes to Financial Statements

Year Ended June 30, 2007

Note 5 Interfund Payables and Receivables

Such balances at June 30, 2007 were:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund:		
Major Street Fund	\$ 25,140	\$ -
Local Street Fund	48,973	-
Community Development Fund	-	11,000
Fire Millage Fund	-	2,143
Flood Control Facility Fund	-	1,146
Major Street Fund:		
General Fund	-	25,140
Local Street Fund	-	30,126
Local Street Fund:		
General Fund	-	48,973
Major Street Fund	30,126	-
Community Development Fund:		
General Fund	11,000	-
Fire Millage Fund:		
General Fund	2,143	-
Flood Control Facility Fund	184	-
Flood Control Facility Fund:		
General Fund	1,146	-
Fire Fund	<u> -</u>	<u> 184</u>
	<u>\$118,712</u>	<u>\$118,712</u>

Interfund balances reflect temporary loans and reimbursements due in the normal course of interfund activity.

Note 6 Interfund Transfers

Interfund transfers for the fiscal year ended June 30, 2007, consisted of the following:

	<u>Transfers Out</u>		
	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Total</u>
<u>Transfers In:</u>			
Local Street Fund	\$ -	\$15,231	\$15,231
Waste Water Treatment Plant Fund	<u>63,498</u>	<u> -</u>	<u>63,498</u>
	<u>\$63,498</u>	<u>\$15,231</u>	<u>\$78,729</u>

The transfers from the Major Street Fund to the Local Street Fund was for local street preservation and maintenance. The transfer from the General Fund to the Waste Water Treatment Plant Fund was to help pay for operation of the waste water plant.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2007*

Note 7 Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Governmental Activities				
Assets not being depreciated:				
Land	\$3,100	\$0	\$0	\$3,100
Construction in progress	198,469	0	198,469	0
	<u>201,569</u>	<u>0</u>	<u>198,469</u>	<u>3,100</u>
Capital assets being depreciated:				
Roads	75,237	12,163	0	87,400
Land improvements	260,873	198,469	0	459,342
Buildings and building improvements	683,839	0	0	683,839
Machinery and equipment	497,140	21,793	0	518,933
Vehicles	743,610	0	0	743,610
	<u>2,260,699</u>	<u>232,425</u>	<u>0</u>	<u>2,493,124</u>
Total capital assets	2,462,268	232,425	198,469	2,496,224
Less accumulated depreciation:				
Roads	(4,873)	(3,763)	0	(8,636)
Land improvements	(184,117)	(19,612)	0	(203,729)
Buildings and building improvements	(324,283)	(14,841)	0	(339,124)
Machinery and equipment	(339,549)	(39,727)	0	(379,276)
Vehicles	(474,505)	(46,825)	0	(521,330)
	<u>(1,327,327)</u>	<u>(124,768)</u>	<u>0</u>	<u>(1,452,095)</u>
Total accumulated depreciation	(1,327,327)	(124,768)	0	(1,452,095)
Net capital assets	<u>\$1,134,941</u>	<u>\$107,657</u>	<u>\$198,469</u>	<u>\$1,044,129</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 12,401
Public safety	79,692
Public works	19,639
Recreation and cultural	<u>13,036</u>
Total governmental activities	<u>\$124,768</u>

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2007*

Note 7 Capital Assets (Concluded)

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Business-type Activities (Waste Water Treatment Plant Fund)				
Assets not being depreciated:				
Land	\$6,500	\$0	\$0	\$6,500
Capital assets being depreciated:				
Treatment plant	1,930,575	0	0	1,930,575
Sewer lines	1,051,207	0	0	1,051,207
Machinery and equipment	599,000	1,024	0	600,024
Vehicles	16,480	0	0	16,480
Total capital assets	3,603,762	1,024	0	3,604,786
Less accumulated depreciation:				
Treatment plant	(789,136)	(47,022)	0	(836,158)
Sewer lines	(346,898)	(17,520)	0	(364,418)
Machinery and equipment	(546,986)	(9,693)	0	(556,679)
Vehicles	(16,480)	0	0	(16,480)
Total accumulated depreciation	(1,699,500)	(74,235)	0	(1,773,735)
Net capital assets	<u>\$1,904,262</u>	<u>(\$73,211)</u>	<u>\$0</u>	<u>\$1,831,051</u>

Note 8 Long-Term Debt

The following is a summary of long-term debt outstanding as of June 30, 2007:

Other Liabilities:

Compensated Absences Payable	\$57,386
------------------------------	----------

Changes in principal during the 2006-07 fiscal period are summarized as follows:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due Within</u> <u>One Year</u>
2004 KME Pumper Fire Truck-Loan Payable	\$ 84,826	\$ -	\$84,826	\$ -	\$ -
Compensated Absences Payable	<u>53,315</u>	<u>4,071</u>	-	<u>57,386</u>	-
	<u>\$138,141</u>	<u>\$4,071</u>	<u>\$84,826</u>	<u>\$57,386</u>	<u>\$ -</u>

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2007*

Note 8 Long-Term Debt (Concluded)
Compensated absences payable represents vested benefits for unused vacation and personal days under formulas and conditions specified in the employee's contract.

Note 9 Property Taxes
The City bills and collects its own property taxes and also taxes for the County of Monroe, State of Michigan, Monroe County Community College, Monroe County Intermediate School District, Mason Consolidated School District, and delinquent water bills for the South County Water System. Summer property taxes are billed on July 1 each year and collected by the City from July 1 to July 31. Winter property taxes are billed on December 1 each year and collected from December 1 to February 14.

The taxable valuation for both real and personal property as of December 31, 2005, amounted to \$95,854,851 which was based on a percentage of the fair market value of the assessed property. The 2005 tax roll consisted of the following:

	<u>General Operating</u>	<u>Fire Millage Fund</u>	<u>Flood Control Facilities Fund</u>	<u>Totals</u>
Mills	9.8304	0.9859	0.9859	11.8022
Levy	\$942,287	\$94,499	\$94,499	\$1,131,285

Included within the boundaries of the City of Luna Pier is a Consumers Power Company electric utility plant. A breakdown of the 2006 levy between the Consumers Power Company and other property is as follows:

Consumers Power Company	\$ 706,805
Other	<u>424,480</u>
	<u>\$1,131,285</u>

Note 10 Sewer Use Charge
Ordinance No. 67, as amended by Ordinance No. 90, Ordinance No. 145, Ordinance No. 175, and Ordinance No. 197 established a charge to customers for use of the City of Luna Pier Waste Water Treatment System. The latest ordinance changed the customer charge from a flat-fee per residential unit to fees based on a fixed rate charge (depending on the size of the water meter) and volume charge (depending on the amount of water usage). During the transition, resolution No. 759 established a flat quarterly fee of \$87.50 per residential customer on January 1, 2007. The new rates vary from a fixed rate quarterly charge of \$17 for a 5/8 inch meter to \$850 for a 6 inch meter. The volume charge was established at \$4.65 per 1,000 gallons of water usage. These fees are in addition to fees required for connections and permits and other fees required by other ordinances.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2007

Note 11 Employee's Pension Plan
Plan Description

The City of Luna Pier is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System of Michigan (MERS), administered by the State of Michigan.

Benefit provisions and all other requirements are established by state statute and City council resolution. All full time City employees are eligible to participate in the system. Benefits vest after 10 years of service. Covered employees are eligible to retire at age 60 with 10 or more years of credited service or age 55 with 15 or more years of credited service or age 50 with 25 or more years of credited service. Monthly benefits are calculated by multiplying credited service at time of termination of membership by 2% of the member's three-year final average compensation. The retirement allowance is reduced ½ of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available. There is no mandatory retirement age. The system also provides death and disability benefits. Benefits are established by State statute and City Council resolution.

The Municipal Employees Retirement System of Michigan issues a publicly available financial report which may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48197.

Funding Policy

All full-time employees contribute 5% of their salary to the plan which amounted to \$16,827 for the fiscal year ending June 30, 2007. The City is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by State statute. The City's annual required contribution was \$77,616 for the fiscal year ending June 30, 2007 (23.1% of covered payroll). The contribution requirements of plan members and the City are established by the City and by the MERS Council of Trustees.

Annual Pension Cost

For the fiscal year ending June 30, 2007, the City's annual pension cost of \$77,616 for the plan was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age normal cost method. Significant actuarial assumptions include (a) 8.0% investment rate of return, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0% to 8.4%, depending on age, attributable to seniority/merit and, (d) assumptions that benefits will increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over 30 years.

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2007*

Note 11 Employee's Pension Plan (Concluded)
Three-year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension Cost</u>	<u>Percentage of</u> <u>Annual Pension</u> <u>Cost Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/05	\$41,709	100%	\$ -
6/30/06	27,785	100%	-
6/30/07	77,616	100%	-

Valuation Ended December 31,

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$2,670,015	\$2,603,041	\$2,618,010
Actuarial accrued liability (entry age)	3,722,576	3,936,371	3,984,359
Unfunded AAL	(1,052,561)	(1,333,330)	(1,366,349)
Funded ratio	72%	66%	66%
Annual payroll	335,927	240,539	269,405
UAAL as a percentage of annual covered payroll	313%	554%	507%

Note 12 Contingent Liability

The City of Luna Pier is subject to the Michigan Employment Security Act and would be liable for valid unemployment claims on a reimbursement basis. No provision has been made for this potential liability.

Note 13 Lake Front Sewer Projects

On March 11, 1988, the City of Luna Pier signed a contract with LaSalle Township which specified that the City of Luna Pier will provide the capacity for treatment of the City's wastewater at the City of Luna Pier Wastewater Treatment Plant. Under the agreement, LaSalle Township is responsible for the financing and construction of a portion of the expansion to the present system. As of June 30, 1991, the expansion of the system had been completed. The City of Luna Pier is responsible for the operation and maintenance of the system and LaSalle Township is liable for a minimum annual usage charge of \$68,643. The City received a grant from the Environmental Protection Agency for \$1,190,300, which covered approximately 55% of the eligible costs relating to the expansion of the present system and the sewer lines in LaSalle Township. Total costs of the project were approximately \$2,907,703, with the City of Luna Pier contributing \$130,000. Costs relating to the expansion of Luna Pier's system amounted to \$1,378,251.

Note 14 Health Care and Life Insurance

In addition to providing pension benefits, the City provides certain health care and life insurance benefits for retired employees. Substantially all of the City's full time employees may become eligible for those benefits if they reach normal retirement age while working for the City. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The City recognizes the cost of providing those benefits by expensing the annual insurance premiums, which were \$267,679 for the year ended June 30, 2007. \$163,158 of this yearly expense was for premiums for thirteen retirees.

CITY OF LUNA PIER

Notes to Financial Statements
Year Ended June 30, 2007

Note 15 Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries (workman's compensation). The City has purchased commercial insurance for property loss, torts, errors, omissions, and employee injuries.

Note 16 Joint Venture

The South County Water System is a joint venture with the County of Monroe and four municipalities: LaSalle Township, Bedford Township, Erie Township, and the City of Luna Pier. However, the municipalities do not have an equity interest in this joint venture. The City of Luna Pier and the other three municipalities entered into a contract with the County of Monroe whereby each municipality has pledged their full faith and credit to provide debt service payments on the \$1,400,000 bond issue dated July 1, 1995. The bond proceeds were used for renovations and improvements to the South County Water System. The City of Luna Pier and the other three municipalities entered into another contract with the County of Monroe whereby each municipality has pledged their full faith and credit to provide debt service payments on the \$4,400,000 bond issue dated October 1, 2005. The bond proceeds were used to acquire and construct improvements to the South County Water System, and \$280,000 of the bond issue was used to redeem the balance of the 1995 bond issue dated July 1, 1995. Each municipality is obligated for their share of the obligation based on the assessed property valuations which are computed annually. Currently, the South County Water System provides the debt retirement requirements on the \$4,400,000 bond issue which are paid from the system's revenues.

As of June 30, 2007, the City of Luna Pier's obligation for this bond issue is 6.5821%. The following is the financial information of the joint venture, obtained from the Monroe County Drain Commissioner, County Agency financial report as of December 31, 2006:

Total assets	\$31,711,150
Total liabilities	4,812,892
Total net assets	26,898,258
Total revenues	4,677,818
Total expenses	3,497,735
Total increase in system equity	1,180,083
Current portion of long-term debt	140,000
Long-term debt (net of discounts)	4,119,700

CITY OF LUNA PIER

*General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes:				
Property taxes	\$942,291	\$942,291	\$941,505	(\$786)
Payment in lieu of taxes	5,000	5,000	10	(4,990)
Penalties and interest	1,000	1,000	3,144	2,144
	<u>948,291</u>	<u>948,291</u>	<u>944,659</u>	<u>(3,632)</u>
Licenses and permits:				
Building permits	15,000	15,000	13,831	(1,169)
Plan review fee	100	100	2,128	2,028
Plumbing permits	2,500	2,500	2,097	(403)
Parking and launching permits	1,900	1,900	5,489	3,589
Parking - Pay and Display	4,000	4,000	6,859	2,859
Electrical permits	3,500	3,500	5,053	1,553
Mechanical permits	2,500	2,500	4,035	1,535
Other	1,100	1,100	100	(1,000)
	<u>30,600</u>	<u>30,600</u>	<u>39,592</u>	<u>8,992</u>
Federal grants:				
FEMA grant - fire department	0	0	4,833	4,833
State grants:				
State shared revenue	130,000	130,000	125,494	(4,506)
Liquor license fees	850	850	850	0
Police grants	500	500	693	193
	<u>131,350</u>	<u>131,350</u>	<u>127,037</u>	<u>(4,313)</u>
Local grant:				
County of Monroe grant	0	0	6,792	6,792
Charges for services:				
Tax administration fee	24,000	24,000	24,310	310
Cablevision fee	4,500	4,500	4,947	447
Bed tax - Super 8	7,000	7,000	2,533	(4,467)
Fringe benefit recovery	5,500	5,500	3,799	(1,701)
	<u>41,000</u>	<u>41,000</u>	<u>35,589</u>	<u>(5,411)</u>
Fines and forfeits	5,000	5,000	2,901	(2,099)
Interest income	10,000	10,000	47,520	37,520

CITY OF LUNA PIER

*General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues(Concluded)				
Rentals:				
Equipment rental	\$25,000	\$25,000	\$23,693	(\$1,307)
Building rental	8,000	8,000	8,550	550
Bath house rental	1,050	1,050	1,937	887
City hall rental	3,000	3,000	0	(3,000)
Building lease	0	0	500	500
AT&T tower land lease	10,200	10,200	11,100	900
	<u>47,250</u>	<u>47,250</u>	<u>45,780</u>	<u>(1,470)</u>
Other revenue:				
Donations	6,300	6,300	3,221	(3,079)
Other revenue	20,000	20,000	39,051	19,051
	<u>26,300</u>	<u>26,300</u>	<u>42,272</u>	<u>15,972</u>
 Total Revenues	 1,239,791	 1,239,791	 1,296,975	 57,184
Expenditures				
Legislative:				
Council	5,200	5,200	4,800	400
General government:				
Mayor	6,500	6,500	6,125	375
City administrator	30,643	35,643	33,531	2,112
Election	3,900	3,900	9,969	(6,069)
Audit	8,600	7,640	7,640	0
Assessor	24,200	21,370	18,257	3,113
Attorney	15,740	31,740	31,301	439
Clerk	37,600	42,600	42,327	273
Board of review	1,100	1,100	1,058	42
Treasurer	27,300	32,300	32,041	259
City hall and grounds	19,200	19,500	18,675	825
Industrial park	1,000	1,800	1,800	0
Other	20,300	31,300	31,171	129
	<u>196,083</u>	<u>235,393</u>	<u>233,895</u>	<u>1,498</u>
Public safety:				
Police department	173,500	178,000	162,005	15,995
Fire department	72,350	72,350	54,852	17,498
Building inspection	36,415	43,915	43,922	(7)
Urban planning	5,500	5,500	5,400	100
	<u>287,765</u>	<u>299,765</u>	<u>266,179</u>	<u>33,586</u>

CITY OF LUNA PIER

*General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures(Concluded)				
Public works:				
Public works	\$109,700	\$109,700	\$96,989	\$12,711
Streetlights	25,000	29,000	26,277	2,723
Refuse collection	63,000	65,000	64,747	253
Water department	300	300	0	300
	<u>198,000</u>	<u>204,000</u>	<u>188,013</u>	<u>15,987</u>
Recreation and cultural:				
Recreation	28,350	28,350	23,385	4,965
Water tower park	10,600	12,500	12,409	91
Library	5,200	5,200	4,132	1,068
	<u>44,150</u>	<u>46,050</u>	<u>39,926</u>	<u>6,124</u>
Other:				
Insurance and bonds	76,000	67,360	68,978	(1,618)
Hospital and dental insurance	275,000	243,800	237,900	5,900
Life insurance	4,500	6,500	3,962	2,538
Pension	32,000	49,000	53,169	(4,169)
Social security	28,000	30,000	31,022	(1,022)
Unemployment and buy out	1,000	1,000	0	1,000
Workers compensation	14,000	14,000	10,612	3,388
Grand pump	17,200	17,800	1,783	16,017
Engineering	2,000	2,000	1,582	418
Refunds	0	0	9,102	(9,102)
Contingencies	55,000	14,030	0	14,030
	<u>504,700</u>	<u>445,490</u>	<u>418,110</u>	<u>27,380</u>
 Total Expenditures	 <u>1,235,898</u>	 <u>1,235,898</u>	 <u>1,150,923</u>	 <u>84,975</u>
 Excess (Deficiency) of Revenues Over Expenditures	 3,893	 3,893	 146,052	 142,159
 Other Financing Sources (Uses)				
Operating transfer out	<u>(2,200)</u>	<u>(2,200)</u>	<u>(63,498)</u>	<u>(61,298)</u>
 Net Change in Fund Balances	 1,693	 1,693	 82,554	 80,861
 Fund Balances - Beginning of year	 <u>148,000</u>	 <u>148,000</u>	 <u>760,974</u>	 <u>612,974</u>
 Fund Balances - End of year	 <u>\$149,693</u>	 <u>\$149,693</u>	 <u>\$843,528</u>	 <u>\$693,835</u>

CITY OF LUNA PIER

*Major Street Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State grants:				
Gas and weight tax	\$63,000	\$63,000	\$60,924	(\$2,076)
Interest income	8,000	8,000	20,534	12,534
Total Revenues	71,000	71,000	81,458	10,458
Expenditures				
Public works:				
Preservation	80,000	80,000	0	80,000
Routine maintenance	85,300	85,300	12,485	72,815
Traffic services	4,900	4,900	2,202	2,698
Winter maintenance	6,600	6,600	2,515	4,085
Administrative and engineering	2,675	2,675	2,484	191
Contingencies	100,000	100,000	0	100,000
Total Expenditures	279,475	279,475	19,686	259,789
Excess (Deficiency) of Revenues Over Expenditures	(208,475)	(208,475)	61,772	270,247
Other Financing Sources (Uses)				
Operating transfer out	(14,895)	(14,895)	(15,231)	(336)
Net Change in Fund Balances	(223,370)	(223,370)	46,541	269,911
Fund Balances - Beginning of year	413,000	413,000	424,762	11,762
Fund Balances - End of year	\$189,630	\$189,630	\$471,303	\$281,673

CITY OF LUNA PIER

*Local Street Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State grants:				
Gas and weight tax	\$32,000	\$32,000	\$37,234	\$5,234
Interest income	2,500	2,500	1,294	(1,206)
Total Revenues	34,500	34,500	38,528	4,028
Expenditures				
Public works:				
Preservation	41,000	41,000	31,036	9,964
Routine maintenance	50,000	50,000	15,466	34,534
Traffic services	2,825	2,825	7,918	(5,093)
Winter maintenance	9,675	9,675	3,604	6,071
Administrative and engineering	3,300	3,300	3,181	119
Contingencies	595	595	0	595
Total Expenditures	107,395	107,395	61,205	46,190
Excess (Deficiency) of Revenues Over Expenditures	(72,895)	(72,895)	(22,677)	50,218
Other Financing Sources (Uses)				
Operating transfer in	72,895	72,895	15,231	(57,664)
Net Change in Fund Balances	0	0	(7,446)	(7,446)
Fund Balances - Beginning of year	36,000	36,000	33,779	(2,221)
Fund Balances - End of year	<u>\$36,000</u>	<u>\$36,000</u>	<u>\$26,333</u>	<u>(\$9,667)</u>

CITY OF LUNA PIER

*Special Road Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Interest income	\$750	\$750	\$1,077	\$327
Total Revenues	750	750	1,077	327
Expenditures				
Public works:				
Audit	500	500	500	0
Contingencies	500	500	0	500
Total Expenditures	1,000	1,000	500	500
Excess (Deficiency) of Revenues Over Expenditures	(250)	(250)	577	827
Other Financing Sources (Uses)				
Operating transfer out	(58,050)	(58,050)	0	58,050
Net Change in Fund Balances	(58,300)	(58,300)	577	58,877
Fund Balances - Beginning of year	58,300	58,300	59,147	847
Fund Balances - End of year	\$0	\$0	\$59,724	\$59,724

CITY OF LUNA PIER

*Community Development Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Interest income:				
Investments	\$4,000	\$4,000	\$748	(\$3,252)
Loans	1,000	1,000	6,865	5,865
Total Revenues	5,000	5,000	7,613	2,613
Expenditures				
General government:				
Administration	10,000	10,000	8,430	1,570
Audit	800	800	800	0
Projects	16,000	16,000	19,175	(3,175)
Total Expenditures	26,800	26,800	28,405	(1,605)
Net Change in Fund Balances	(21,800)	(21,800)	(20,792)	1,008
Fund Balances - Beginning of year	194,000	194,000	297,001	103,001
Fund Balances - End of year	<u>\$172,200</u>	<u>\$172,200</u>	<u>\$276,209</u>	<u>\$104,009</u>

CITY OF LUNA PIER

*Debt Retirement Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Charges for services:				
Water usage charge	\$11,003	\$11,003	\$0	(\$11,003)
Interest income	40	40	0	(40)
Total Revenues	11,043	11,043	0	(11,043)
Expenditures				
General government:				
Audit fees	700	700	700	0
Contingency	500	500	0	500
Total Expenditures	1,200	1,200	700	500
Debt service:				
Principal	9,612	9,612	0	9,612
Interest	1,391	1,391	0	1,391
Fees	200	200	0	200
Total Expenditures	11,203	11,203	0	11,203
Total Expenditures	12,403	12,403	700	11,703
Net Change in Fund Balances	(1,360)	(1,360)	(700)	660
Fund Balances - Beginning of year	3,700	3,700	3,728	28
Fund Balances - End of year	\$2,340	\$2,340	\$3,028	\$688

CITY OF LUNA PIER

*Flood Control Facilities Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes				
Property taxes	\$94,560	\$94,560	\$94,387	(\$173)
Payment in lieu of taxes	500	500	0	(500)
Penalties and interest	100	100	249	149
	<u>95,160</u>	<u>95,160</u>	<u>94,636</u>	<u>(524)</u>
Interest income	<u>5,000</u>	<u>5,000</u>	<u>18,299</u>	<u>13,299</u>
Total Revenues	<u>100,160</u>	<u>100,160</u>	<u>112,935</u>	<u>12,775</u>
Expenditures				
Public works:				
Dike maintenance	200,000	200,000	50	199,950
Emergency maintenance	200,000	200,000	500	199,500
Engineering fees	10,000	10,000	0	10,000
Attorney fees	500	500	0	500
Miscellaneous	500	500	2,752	(2,252)
Contingency	<u>5,000</u>	<u>5,000</u>	<u>0</u>	<u>5,000</u>
Total Expenditures	<u>416,000</u>	<u>416,000</u>	<u>3,302</u>	<u>412,698</u>
Net Change in Fund Balances	(315,840)	(315,840)	109,633	425,473
Fund Balances - Beginning of year	<u>512,000</u>	<u>512,000</u>	<u>348,648</u>	<u>(163,352)</u>
Fund Balances - End of year	<u>\$196,160</u>	<u>\$196,160</u>	<u>\$458,281</u>	<u>\$262,121</u>

CITY OF LUNA PIER

*Fire Millage Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes:				
Property taxes	\$94,560	\$94,560	\$94,408	(\$152)
Payment in lieu of taxes	600	600	0	(600)
Penalties and interest	100	100	269	169
	<u>95,260</u>	<u>95,260</u>	<u>94,677</u>	<u>(583)</u>
Interest income	<u>100</u>	<u>100</u>	<u>135</u>	<u>35</u>
Total Revenues	<u>95,360</u>	<u>95,360</u>	<u>94,812</u>	<u>(548)</u>
Expenditures				
Public safety:				
Fire department:				
Miscellaneous	125	125	913	(788)
	<u>125</u>	<u>125</u>	<u>913</u>	<u>(788)</u>
Debt service:				
Principal	83,772	83,772	84,826	(1,054)
Interest	3,480	3,480	2,426	1,054
	<u>87,252</u>	<u>87,252</u>	<u>87,252</u>	<u>0</u>
Total Expenditures	<u>87,377</u>	<u>87,377</u>	<u>88,165</u>	<u>(788)</u>
Excess (Deficiency) of Revenues Over Expenditures	7,983	7,983	6,647	(1,336)
Other Financing Sources(Uses)				
Operating transfer in	<u>2,000</u>	<u>2,000</u>	<u>0</u>	<u>(2,000)</u>
Net Changes in Fund Balances	<u>9,983</u>	<u>9,983</u>	<u>6,647</u>	<u>(3,336)</u>
Fund Balances - Beginning of year	<u>2,400</u>	<u>2,400</u>	<u>6,548</u>	<u>4,148</u>
Fund Balances - End of year	<u><u>\$12,383</u></u>	<u><u>\$12,383</u></u>	<u><u>\$13,195</u></u>	<u><u>\$812</u></u>

CITY OF LUNA PIER

*Tax Collection Agency Fund
Statement of Changes in Assets and Liabilities
June 30, 2007*

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>
Assets				
Cash	<u>\$1,440</u>	<u>\$4,429,643</u>	<u>\$4,429,722</u>	<u>\$1,361</u>
Liabilities				
Due to other taxing units	<u>1,440</u>	<u>1,246,327</u>	<u>1,246,680</u>	<u>1,087</u>
Due to other governmental units	<u>0</u>	<u>3,183,316</u>	<u>3,183,042</u>	<u>274</u>
Total Liabilities	<u>\$1,440</u>	<u>\$4,429,643</u>	<u>\$4,429,722</u>	<u>\$1,361</u>

CITY OF LUNA PIER

*Waste Water Treatment Plant Fund
Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets
Years Ended June 30, 2007 and 2006*

	<u>2007</u>	<u>2006</u>
Operating Revenues		
Charges for services:		
Sewer use charge - Luna Pier	\$106,373	\$134,916
Sewer use charge - LaSalle Township	69,480	51,220
User fees - Mason School	2,000	2,400
	<u>177,853</u>	<u>188,536</u>
Other revenue	30	2,597
Permits	4,050	2,240
Penalties	266	1,411
	<u>182,199</u>	<u>194,784</u>
Operating Expenses		
Sewer processing and maintenance:		
Salaries	105,487	84,513
Payroll taxes	8,070	6,465
Workers compensation	2,701	3,045
Pension	23,766	8,764
Hospitalization insurance	29,779	22,918
Life Insurance	1,654	671
Insurance	13,408	13,984
Supplies and chemicals	32,448	35,368
Contracted services	69,296	46,122
Utilities and telephone	28,911	22,565
Maintenance	11,377	6,877
Schooling	920	1,022
Miscellaneous	2,142	1,503
Depreciation	74,235	66,154
	<u>404,194</u>	<u>319,971</u>
Administration:		
Salaries	2,890	2,512
Fringe benefits	722	628
Audit fees	1,800	1,700
	<u>5,412</u>	<u>4,840</u>
	<u>409,606</u>	<u>324,811</u>
Net Operating Income (Loss)	(227,407)	(130,027)
Non-Operating Revenues (Expenses)		
Interest income	1,379	1,501
	<u>1,379</u>	<u>1,501</u>
Total Non-Operating Revenues (Expenses)	1,379	1,501
Net Income (Loss) Before Transfers	(226,028)	(128,526)
Transfers in	63,498	74,431
Change in Net Assets	(162,530)	(54,095)
Net Assets - Beginning of year	2,061,061	2,115,156
Net Assets - End of year	<u>\$1,898,531</u>	<u>\$2,061,061</u>



COOLEY HEHL
WOHLGAMUTH & CARLTON
P. L. L. C. Certified Public Accountants

James R. Cooley, CPA
David K. Hehl, CPA
Robert W. Wohlgamuth, CPA
Peter H. Carlton, CPA
Matthew D. Hehl, CPA
Deborah A. Sabo, CPA

One South Monroe Street • Monroe, Michigan 48161-2281
Telephone: (734) 241-7200 • Fax: (734) 241-2637
www.chwcepa.com

Members:
American Institute of Certified Public Accountants
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Certified Public Accountants

Mayor and City Council
City of Luna Pier
Monroe County, Michigan

In planning and performing our audit of the financial statements of the City of Luna Pier as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

Financial Statements

The City does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenues and expenditures, to track changes in capital assets, and to present required financial statement disclosures. As is the case with many smaller and medium-sized entities, the government has historically relied on independent external auditors to assist in the preparation of the government-wide financial statements and footnotes. As a result of this condition, the government lacks internal controls over the preparation of the financial statements in accordance with GAAP.

Mayor and City Council
City of Luna Pier

-2-

The following comments are not significant deficiencies or material weaknesses but are suggestions to improve your existing accounting and control systems.

Sewer Charges

During the year ended June 30, 2007, the City instituted sewer charges based upon water usage and is having the billings prepared by South County Water. We suggest that the City periodically obtain billing reports from South County Water and review for completeness and accuracy.

Retiree Health Care Benefits

There is a new governmental accounting standard (GASB No. 45) which is going to require the City to recognize the cost of providing retiree health care over the working life of the employee, rather than at the time the health care premiums are paid. An actuarial study will need to be completed to provide this information to the City. This study may also assist the City in determining the possibility of starting to pre-fund this cost.

We appreciate the cooperation and courtesy extended to us by the officials and employees of the City during the audit engagement. We are encouraged by the City's efforts to improve and maintain a sound internal accounting control system and by the efficiency of those people involved. It is our pleasure to have been of service to the City of Luna Pier.

Very truly yours,



October 19, 2007